

Franchise Tax Board**ANALYSIS OF AMENDED BILL**Author: Wolk, et al.Analyst: Janet JenningsBill Number: SB 14Related Bills: See Legislative HistoryTelephone: 845-3495Amended Date: May 19, 2011Attorney: Patrick Kusiak

Sponsor: _____

SUBJECT: State Budget/Performance-Based Budget**SUMMARY**

This bill would require state agency budgets to be developed using performance-based budgeting methods.

RECOMMENDATION AND SUPPORTING ARGUMENTS

No position.

Summary of Amendments

The May 19, 2011, amendments, among other items, added a provision that would make enactment of this bill contingent upon funding appropriated in the Annual Budget Act.

This is the department's first analysis of the bill. This analysis only addresses the provisions of this bill that impact the department's programs and operations.

PURPOSE OF THE BILL

According to the author's office, the purpose of this bill is to provide accountability for state agency expenditures of state funds and provide objective measurements to evaluate their actions.

EFFECTIVE/OPERATIVE DATE

This bill would be effective January 1, 2012. The requirements applicable to a state agency budget submission are specifically operative as of January 1, 2013; the requirements for the Governor's budget submission are specifically operative for the 2014/2015 budget.

ANALYSIS**STATE LAW**

State law requires the Department of Finance (DOF) to develop, issue, and implement consistent and adequate guidelines for state agencies to follow when submitting budgets. The guidelines must ensure the following:

- The budgets are reflective of an agency's activities;
- The budgets are reflective of the costs that are associated with their execution; and
- The budgetary presentation is designed to display expenditures based on various goals or objectives when a program budget format is used.

Board Position:

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Executive Officer

Date

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DOF, in cooperation with the Legislature, must develop a format for state agencies to use when developing a program budget.

Every state agency and court that receives an appropriation is required to submit a complete and detailed budget to the DOF. The budget must be in the form the DOF prescribes and must include all proposed expenditures and estimated revenues.

Generally, every state agency reviews their expenditure plans and prepares an annual baseline budget to maintain existing service levels. In addition, they may prepare Budget Change Proposals (BCPs) to adjust service levels. The DOF analyzes the baseline budget and BCPs, estimates revenues, and prepares a balanced expenditure plan for the Governor's approval. The Governor may require state agencies, officers, or employees to furnish whatever information is deemed necessary to prepare the budget. The Governor's Budget is submitted to the Legislature by January 10 of each year. The Governor and Legislature are required to enact a budget package by June 15 of each year.

After enactment, the state agencies administer, manage change, and exercise oversight of the Budget on an ongoing basis. In addition, the Joint Legislative Budget Committee is involved in the ongoing administration of the Budget and reviews various requests for changes to the Budget.

See Appendix A for a general explanation of the different types of budgeting and their uses in California.

THIS BILL

This bill would require each state agency, for which an appropriation has been made, including the Franchise Tax Board (FTB), to submit to the DOF a complete and detailed budget, at the time and in the form prescribed, utilizing performance-based budgeting methods that identify or update the following:

1. The mission and goals of the agency.
2. The activities and programs focused on achieving those goals.
3. Performance metrics that reflect desired outcomes for existing and proposed activities and a targeted performance level for the following year.
4. Prior-year performance data and an explanation of deviation from previous-year targets.
5. Proposed changes in statute, including the creation of incentives or elimination of disincentives that could improve outcomes or hold down costs.
6. A description of the impacts and consequences to the current recipients or beneficiaries of a program proposed for modification or elimination.

This bill defines performance-based budgeting as a system of budgeting that uses information on performance to inform resource allocation decisions, thereby establishing clear accountability.

IMPLEMENTATION CONSIDERATIONS

The department has identified the following implementation concern. Department staff is available to work with the author's office to resolve this concern and other concerns that may be identified.

Implementing this bill would have a significant impact to the department. The FTB currently uses the California State Accounting and Reporting System (CALSTARS) for external state level reporting and the Activity Based Costing (ABC) as an internal budget management tool. The ABC is a method of deriving the costs of products and services by calculating the cost of each component activity in the processes that produce and deliver these products and services. Neither the CALSTARS nor the ABC has the capacity to establish and maintain a performance-based budget that includes the development and evaluation of performance measures and standards. The implementation of performance-based budgeting by the department would be contingent on information that would be supplied to the department by the DOF. A delay in providing the information could delay implementation of this bill.

LEGISLATIVE HISTORY

AB 1382 (Niello, 2009/2010), similar to this bill, would have required that the Governor's budget submitted to the Legislature, beginning with the 2011/2012 fiscal year, to be developed using performance-based budgeting methods for each state agency. This bill failed to pass the Assembly by the constitutional deadline.

AB 836 (Huff, 2005/2006) would have required budgets submitted by state agencies and courts to use a zero-based budget method. This bill was referred to the Assembly Committee on the Budget, but was never heard.

SB 1020 and SB 777 (Wolk, et al., 2009/2010), similar to this bill, would have required that the Governor's budget submitted to the Legislature, beginning with the 2014/2015 fiscal year, to be developed using performance-based budgeting methods for each state agency. This bill failed to pass the Senate by the constitutional deadline.

SB 985 (McClintock, 2003/2004) would have required budgets submitted by state agencies and courts to be developed using zero-based and performance-based budget methods beginning with the 2004/2005 fiscal year. This bill was held in the Senate Appropriations Committee.

PROGRAM BACKGROUND

In the fall of each year, the department begins the following year's fiscal budget process with a baseline budget that is either augmented or reduced based on changes in workloads, technology enhancements, or directives from the Legislature or Administration. The department generally uses a combination of line-item and program budgeting, as defined in Appendix A. In developing the budget, the department uses a decentralized budget management structure, which requires involvement of all organizations, programs, and projects within the FTB.

OTHER STATES' INFORMATION

Research has shown that states use a combination of approaches to develop the budget, including incremental, program budgeting, zero-based or modified zero-based budgeting, and performance budgeting. The most frequently used budget approach is program budgeting with 43 states indicating that this is an approach they use. After program budgeting, incremental budgeting is the most frequent approach. Many of the approaches, such as performance budgeting, are done in conjunction with other approaches, such as program or incremental budgeting. Twenty-five states have incorporated performance-based budgeting into their budget practices.

FISCAL IMPACT

Formulating a performance-based budget would require significant changes to the existing internal and external reports. The department would be required to capture additional information and would require a format not currently used by the department. Therefore, the existing systems would need modification, or a new program or all-inclusive system may need to be acquired. In addition, resources would be needed for training staff.

The impact of this bill on the department is unknown at this time, but could be costly for the department to implement due to possible systems and reporting changes. Ultimately, the potential departmental impact for the implementation of performance-based budgeting would depend on the outcome of the proposed guidelines and procedures to be developed by the DOF.

In addition, implementation of this bill could divert resources from core revenue-generating functions.

ECONOMIC IMPACT

The provisions of this bill would not impact state income tax revenues.

SUPPORT/OPPOSITION

Support: California Forward (co-source)

AARP

American Association of University Women

American Council of Engineering Companies of California

American Federation of State, County and Municipal Employees

Bay Area Council

Business Council of San Joaquin County

Brocade Communications Systems, Inc.

California Alliance of Child and Family Services

California Association of Bed & Breakfast Inns

California Chamber of Commerce

California Chapter of the American Fence Association

California Church IMPACT

California Construction and Industrial Materials Association

California Fence Contractors' Association

California Grocers Association

California Hotel & Lodging Association
California Independent Oil Makers Association
California Manufactures & technology Association
California Partnership for the San Joaquin Valley
California Retailers Association
California Senior Advocates League
California State Student Association
California Taxpayers Association
Consumer Specialty Products Association
Contra Costa Council
Engineering Contractors' Association
Flasher Barricade Association
Fresno Business Council
Greater Fresno Area Chamber of Commerce
Greenlining Institute
Half Moon Bay Coastside Chamber of Commerce
Herbalife International of America, Inc.
Huntington Beach Chamber of Commerce
Kern County Taxpayers Association
Los Angeles Area Chamber of Commerce
Marin Builders' Association
MoSys Inc.
Proofpoint Systems Inc.
San Francisco Chamber of Commerce
San Gabriel Valley Economic Partnership
San Mateo County Economic Development Association
Santa Clara and San Benito Counties Building and Construction
Trades Council
Santa Cruz County Medical Society
Saving California Communities
Service Employees International Union
State Building and Construction Trades Council of California
Silicon Valley Leadership Group
TechAmerica
USANA Health Sciences, Inc.
Valley Industry and Commerce Association
WELL Network

Opposition: None on file

ARGUMENTS

Pro: This bill could support a result-oriented delivery of public service and greater governmental transparency.

Con: Requiring performance standards reporting would not guarantee that the data would lead to the state being governed more effectively and/or efficiently.

LEGISLATIVE STAFF CONTACT

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Appendix A

The following is a general description of the four basic types of budgeting and how California uses aspects of all the styles.

Line-Item Budgeting

The budget is prepared along departmental or programmatic lines and focuses on what is to be purchased with funds. Generally, the budget provides a separate line-item appropriation for each major category of expenditure, such as personnel services costs, operating costs, and in some cases, travel or equipment. This is the most widely-accepted and best-understood technique, but does not necessarily reflect programs or services nor does it reflect performance. It is a reflection of costs to operate an agency and is as much an accounting document as it is a budget.

Uses in California: Governor's Budget (Budget Change Proposals (BCP's), Salaries and Wages Supplement, Summary by Object, Changes in Authorized Positions, Supplementary Schedules of Operating Expenses and Equipment (OE&E), Budget Administration (position control, merit salary adjustment, Travel out-of-state, etc.), and Change Book (includes line-item data).

Program Budgeting

A program budget focuses on results of discrete programs and if the program achieved the expected results. An agency defines its functions or programs and applies goals, objectives, and strategies to measure performance. This process focuses on what an agency does and why, as opposed to how it does it. The emphasis is on program performance and ultimate outcomes, as opposed to inputs and processes.

Uses in California: Budget Bill, Governor's Budget (BCPs, Summary of Program Requirements, Program Objectives Statement, Program Detail), and Change Book (includes line-item data).

Zero-Based Budgeting (ZBB)

ZBB is a process designed to analyze an agency, program, or department to determine its worth and value to the government and its citizens. ZBB can take many forms, but in its purest form, this process assumes the agency does not exist and builds its programs, operations, and budget from zero to its optimum level. The agency is forced to rank their organizational purposes and programs with a focus on the priorities of and alternatives to the entity's operations.

Uses in California: Used selectively.

Performance Budgeting

A performance budget lists what each administrative unit is trying to accomplish, the planning, and the resources. It reports on how well it did with the prior year's resources. Similar to program budgeting, the emphasis is on getting the most service for the dollar. Unlike program budgeting, the emphasis is on outputs and outcomes as opposed to mission statements, goals, and objectives. It is a system that promotes accountability.

Uses in California: Governor's Budget and measures and outputs in BCPs.